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## ECONOMIC THEORY AND “SOCIAL REFORM”

### I

It is bold to include the fundamental nature of the universe among unsolved economic problems. Yet conflicting theories of the development of political economy involve this quest for the ultimate. One school insists that the history of theory is the record of an orderly and progressive development toward the goal of eternal economic verity. Another maintains that bodies of economic doctrine are mere isolated attempts theoretically to vindicate contemporary industrial “systems,” with their conglomerate medleys of special interests. The former beholds an unfolding from within; the latter discerns a directive movement from without. The chasm yawning between is occupied by innumerable intermediate theories, expressive of a compromise of the two extremes in every possible permutation.

Despite such basic differences, theorists are nevertheless agreed in assigning a place in the development of doctrine to external circumstance, which includes, among other things, the literature of protest. According to the school first mentioned its function is to dispense the inspiration of provocation; to compel a more systematic and thorough analysis of problems; to induce a more careful and critical statement of principles; in short, in the old-fashioned way, to play the part of temptation in the formation of staunch character. In the eyes of the latter its presence is proof that older theories are out of keeping with existing fact; its increase in volume attests the impossibility of finding relevancy by refining abstractions; and its function is to draw theory away from scholastic speculation back to the concerns of life. Differ as they may as to the nature of their influence, the schools are agreed that the thrilling crises in the history of theory center about the names of such protestants as Quesnay and Smith and Bentham, of George and Marx, of Hobson and Veblen.

At present the protest against the prevailing system of theory finds its source in the contemporary middle-class movement known as "progressivism," or "social reform." The economist and the social reformer alike attest a lack of harmony between the basic notions underlying the reform program and the fundamental tenets of theory. The economist is prone to insist that progressivism has not made a thorough analysis of the present order, and that it is devoid of fundamental principles. He calls attention to the emotional expression of the movement, the superficial character of its remedial measures, and its indifference to ulterior consequences. He humorously points to its proposals inconsiderately garnered into incongruous programs. The social reformer denounces economic theory because of its lack of attention to the immediate and the human; he questions the soundness of laws whose validity is to be juggled out of some "long-run" operation; he condemns the current system because it has been established upon the facts of another age and has not as yet discovered modern industrialism. The charge of lack of fundamentals is met with that of lack of relevancy; the accusation of want of head is met with that of want of heart.

Such tilts, however, do not constitute a clash between two economic systems; a syllogism cannot exterminate a passion, nor can a passion vanquish a syllogism. An intellectual combat must wait until the reformers give up their belief that economic theory can be vanquished with epithets. It must wait until they make a comprehensive analysis of industrial society, formulate a coherent body of doctrine, and present a particularized bill of charges against the theory currently accepted. Until that is done, a formulation of the points at issue between the two is out of the question.

An opportunity, nevertheless, for a partial and tentative statement of the points at issue is afforded by the opportune appearance of a volume which attempts to reduce the "social reform" movement to a definite theoretical statement.<sup>1</sup> The cause is indeed fortunate in having found so keen, thorough, far-sighted, and, above

<sup>1</sup> *Work and Wealth: A Human Valuation.* By J. A. Hobson. New York: Macmillan, 1914. 8vo, pp. xvi+361. \$2.00 net.

all, dispassionate an exponent as Mr. Hobson. His larger constructive outlook has enabled him to free the movement from its crudities, its vapid aspirations, and its grosser inconsistencies. His resourcefulness has enabled him to formulate, in part at least, a constructive program, and vigorously to support even such of its proposals as seem to run afoul of economic principles. And his acquaintance with economic literature, as evidenced by his previous contributions to it, has rendered him particularly fit to formulate the protest against the theory of the schools. A critical examination, therefore, of his treatise should serve the double purpose of revealing the social-reform movement on its theoretical side and of indicating the probable nature of its influence on the development of theory.

## II

Unfortunately, when the field of economics was marked out, no supreme pre-wisdom made provision for so extraneous a product as Hobson's *Work and Wealth*. In fact, to assign so cosmic a contribution to a particular place in an orderly economic universe is to do violence either to an excellent treatise or to a modest science. This is not because the book lacks unity, relevancy, or economic purpose, but because it ramifies into fields economically uncharted and because its lines of argument run athwart the conventional grooves of economic discussion. It associates such economic facts and fancies as the protective tariff, restriction of output, unemployment, and "scientific management" with such alien matters as the theory of play, the "philosophy of drunkenness," the practical utility of Greek and Latin, the propriety of the endowment of educational institutions by men of wealth, and opportunism as a pragmatic theory. It presents the anomaly of discussing production and disregarding money costs, of treating value and ignoring the principles of pecuniary valuation, and of formulating a theory of distribution the while ignoring the laws of wages, interest, and rent. It even performs the paradoxical feat of discussing the reconstruction of society on the double assumption of the "social organism" and a calculus of individual pleasures and pains.

The classification of the treatise as economics must sorely have perplexed the author; for the title bears the marks of the laborious

exertions of the workshop. Yet, despite this, translation is necessary to make it intelligible to the modern economist. The word "Work," as used by the author, covers practically the whole range of human activity; it is, perhaps, intended to include even the "abstinence" involved in capital formation. Its use, instead of the more common term, "Labor," indicates the author's attempt to find a word alike free from older associations and capable of containing a more varied content. The word "Wealth" is stripped of its modern narrowness<sup>1</sup> and reverts to its etymological meaning, as in the Pauline injunction, "Let no man seek his own, but every man another's wealth."<sup>2</sup> The adjective "Human," perhaps the most deliberately selected word in the title, is used in both an objective and a subjective sense: the standards and the objects evaluated are alike meant to be human. Most peculiar of all, the word "Valuation" carries with it no pecuniary connotation. The title, thus interpreted, defines the author's problem: it is the establishment of a theoretical standard of "vital" values in accordance with which society can be reorganized.

The treatise, accordingly, represents a return of economic theory to type. With the purely scientific task of systematizing economic phenomena and of reducing to terms the laws which actually obtain in the industrial world it has no concern. Its problem is rather, in a sense, the one implicit in the word "economics," that of devising a scheme for using limited social resources in such a way as to secure the maximum of wealth. Thus it is of a kind with Adam Smith's *Wealth of Nations*. It is, however, unlike the latter in two essentials: first, in the comprehensiveness of the social program which its problem requires it to elaborate; and, secondly, in the extreme complexity of the social ideal, the realization of which is the object at which the program aims. Since these two characteristics serve alike to classify the treatise and to indicate its differences in scope and objective from current theory, they deserve more than passing mention.

<sup>1</sup> It is interesting to compare the title of Hobson's book with that of Pigou's *Wealth and Welfare*. Although their concepts are somewhat different, it is worthy of note that Hobson uses the word "wealth" to represent the general idea to which Pigou applies the term "welfare."

<sup>2</sup> I. Cor. 10:24.

Hobson's treatise, like that of Smith's, might be classed indifferently as "economic art," "social politics," or "social ethics." Both make scientific investigation incidental to the solution of complex social problems. Upon each, therefore, devolves the self-imposed task of drawing up a social program. Smith found the task simplicity itself. He elaborated the general thesis of an identity between individual pecuniary advantage and social welfare. He accepted without question the rationality of the economic judgment. Thus he was able to reduce what might otherwise have become a complex and comprehensive economic art to the single principle of *laissez-faire*.

Later economists have been freed from the same necessity by an implicit acceptance of Smith's fundamental thesis. It is evident that a general intellectual discipline that can be reduced to the simplicity of a self-evident proposition is doomed. Small wonder that, in view of the growing acceptance of *laissez-faire*, economic art, as a general theoretical subject, should disappear. It is true that it has not entirely disappeared; for, even today, in semi-practical fields, such as the tariff, the trusts, and currency, the "is" and the "ought" are inextricably confused. In the discussion of such subjects, despite their theoretical separation, the scientific elaboration of principles and the prescription of remedial measures are very closely associated. But such studies are in large measure due to German influence, and are not in the direct line of theoretical succession. The field of theory, where one would look for a surviving general economic art, has been gradually contracted until, at present, it is concerned only with problems of value. In this field the acceptance of positivism has left no formal place for such an art. However, even with these restrictions, it has not entirely disappeared. One finds vestiges of it in the stress placed upon such terms as "utility," "disutility," and "productivity," and lately in an increasing disposition to qualify these words with the adjective "social." The emphasis placed upon price as an organizing and distributing force discloses similar vestiges. It hardly seems too much to say that the art has survived in the form of ethical implications of theory favorable to the present order. Current economic theory, as it is commonly understood, is the unconscious expression

of an economic art whose fundamental tenet is non-interference.<sup>1</sup> Its simple program is so much a part of itself that it requires no formal expression.

Hobson, on the contrary, finds no such easy method of escape. His condemnation of *laissez-faire* and of automatism in all its forms imposes upon him the task of a quite detailed elaboration of a social program. Compared with Smith's quest, his is for a veritable will-of-the-wisp.

In like manner the peculiar nature of the social ideal which Hobson is compelled to set up can be indicated by comparison. It is undoubtedly true that fundamentally Smith's is almost as complex as Hobson's, for the ultimate end of both is social welfare. Such difference as exists is due to the accidental fact that Smith's social world is of a simpler type than Hobson's. The former, however, enjoyed the advantage of not having to aim directly at his ulterior object. As before, his association of individual and social good enabled him to make the fairly definite concept of pecuniary wealth his immediate objective. But it would seem at first that later economists could not escape so easily; for their attention to the concept of utility has shown quite clearly the intermediate character of wealth. They have, indeed, been compelled to set up some more ultimate term, such, for instance, as psychic income, which is nothing else than an aggregate of the feeling magnitudes experienced in consumption. Since, however, this is the objective

<sup>1</sup> The ethical problem involved in associating productive contributions with pecuniary rewards may be considered ante-distributive, distributive, or post-distributive. The typical writers of the "marginal school" have freed neither their concepts nor their theories from ethical implications. For example, Clark's *Distribution of Wealth* and Böhm-Bawerk's *Positive Theory of Capital* fairly bristle with them. An increasing number of economists, however, are coming to insist upon the purely positive character of the theories of value, including, of course, distributive theories. They disclaim the ethical implications of the theories as accidental, due largely to looseness of statement on the part of their adherents. They would make the ethical problem ante-distributive or post-distributive; throwing it forward, say, to the institutional situation, or backward, say, to the domain of taxation. Since neither of these fields is at present in the domain of economic theory, the latter thus preserves its positive character. Consequently these theorists are compelled to formulate no social program. Incidentally it is worthy of note that in view of his well-known projects of reform, Hobson might escape from the theoretical difficulties in which he is placed by taking his stand with the "positive" theorists.

of an automatic process, the ethical validity of which is accepted by implication, they are not called on to analyze it. Its importance, to them, lies, not in its content, but in its existence.<sup>1</sup>

Unlike Smith and the later economists, Hobson is concerned with a state of social well-being that can be attained only by conscious effort. It must be reached by careful planning, not by the automatic operation of a let-alone principle. He is, therefore, compelled by his problem to set up an elaborate standard of social welfare, appraising in their complex mutual relations all the elements of a well-ordered social whole.

Hobson's treatise, consequently, is to be classified as economic art. But it is art in a sense much more extensive than the whole of the present science. It must also be classified as theory; for no discipline so comprehensive can do more than formulate the general principles that society must obey in converting finite social resources into social weal. The movement for social reform, if this be a fair representation of it, thus threatens to create, or more properly to re-create, the larger theoretical subject of economic art.

### III

The finiteness of modern economics can contribute neither a viewpoint nor basic assumptions to so infinite a problem. For these the author is compelled to go to sociology. This he does willingly, the while overriding intellectual frontiers on the theory that the threads of life are so "inextricably intertwined" that the economic is meaningless apart from the general social situation. But, on such an assumption, frontiers are not really overridden; for is not society a "collective personality" and must it not be conceived of in organic terms?<sup>2</sup> How great is his dependence upon sociological presuppositions is indicated by repeated references to "adaptative economy" and "organic development," by the citation of numerous

<sup>1</sup> Again, the economists who insist upon the purely positive character of value theory, escape by making the ethical question ante-distributive or post-distributive. However, most of the writers of the marginal school implicitly justify the prevailing system. Consequently, in view of a tacit acceptance of the *laissez-faire* principle they are not called upon to state definitely the characteristics of the society which they regard as desirable.

<sup>2</sup> Hobson, *op. cit.*, p. 306.

examples of "instincts" functioning toward social ends, and by the use of many analogies between the life of society and that of a biological organism.<sup>1</sup> Still clearer proof of his assumption of the reality of society in the organicistic whole is furnished by his statement that the greatest current need is for "a social soul to inhabit the social body."<sup>2</sup>

As we have seen, the author's problem requires him to formulate a working concept of social welfare. Since he has chosen the foregoing assumptions, we are justified in expecting his concept to be based upon them. His realization of the immensity of this task is indicated by his equivocal statement that a satisfactory standard will "emerge, when a sufficient number of practical issues have been brought up for consideration."<sup>3</sup> Now the primary impulse of one who has worked in economics is to give the term "social welfare" a hedonic content. However, it is at least open to question whether such a concept is compatible with Hobson's rigid assumption of society as an organism. It is hard to think of a sociologist who would definitely insist that social welfare consists of an aggregate of conscious feeling magnitudes. Some would go so far as very nearly to dissociate "happiness" and its external environment. Many could be found who would argue that satisfactions are relative, not absolute things, and that the accustomed plane of material welfare of a society is the base line from which to measure consciously appreciated pleasures. They would likewise insist that difference in planes is in no sense a measure of the excess of happiness in the higher over the lower society. Some even—those most biologically minded—would argue that organisms act in accordance with their predetermined natures, and that conscious pleasure is rather a by-product of proper functioning than the end of the process. All would be able to mention essentials to well-being whose use is attended by no conscious increments of pleasure. And, finally, economists, as well as sociologists, could be found, who would quibble over the implications of the term utility and its relation to conscious appreciation of changes in condition.

<sup>1</sup> *Ibid.*, e.g., pp. 350–53.

<sup>2</sup> *Ibid.*, p. 285.

<sup>3</sup> *Ibid.*, p. 321.

But, waiving the doubtful point of the propriety of a hedonistic conception of welfare as a conscious social end, consistency requires Hobson, assuming that he uses the concept at all, to express it in organismic terms. This Hobson clearly recognizes. He identifies "human welfare" with that of "society as an organic unity,"<sup>1</sup> and insists that our concern with economic processes must be their bearing upon the "welfare of society."<sup>2</sup> He habitually makes use of the social welfare concept with organismic connotations. Thus he argues for generalized consumption as a necessary relief from the monotonous overspecialization entailed by the machine process.<sup>3</sup> He defends the free access of women to the professions as a means to the fuller utilization of human resources.<sup>4</sup> The chief argument which he advances in favor of granting a larger measure of leisure to certain classes is that periods of leisure and contemplation are necessary to the origination of new ideas, and that only thus can society make use of its full capacity for development.<sup>5</sup> He grants to waste a partial vindication on the ground that it constitutes social experimentation in consumption.<sup>6</sup> In these, and many like cases, he finds the welfare he is seeking not in conscious feeling magnitudes, not in physical well-being or ill-being on the part of the individuals whom such institutions and practices immediately concern, but only within the confines of a larger social process.

It is, therefore, with some surprise that one finds the concept of social welfare, as elaborated in the treatise, saturated with individualistic notions. Perhaps, however, it is inevitable, in view of his work in economics, that Hobson's assumptions, terms, and methods of work should contain more than vestiges to indicate the influence of the older discipline. The most conspicuous evidence of this is in the things the author leaves undone. The treatise contains no theory of the appraisal of social classes on the basis of the social functions which they perform, or should be made to perform. The problem which the author undertakes seems to call for a careful comparison of the content of social welfare in a society stratified on pecuniary lines, such as ours, and in the possible alternatives to

<sup>1</sup> *Work and Wealth: A Human Valuation*, p. 17.

<sup>4</sup> *Ibid.*, p. 83.

<sup>2</sup> *Ibid.*, p. 16.

<sup>5</sup> *Ibid.*, p. 239.

<sup>3</sup> *Ibid.*, p. 110.

<sup>6</sup> *Ibid.*, p. 126.

such a society; yet nothing of this appears in the treatise. More noteworthy still, with the exception of a few scattered and inconsequential references to property,<sup>1</sup> the treatise neglects practically the whole of the institution-framework of society. The common standards of social justice, the theory of individual liberty, the principles of contract, the right of inheritance, and like conventions, are all overlooked. Here, the critics of economic theory are insisting, lies the real battlefield between opposing industrial interests. Yet here the silence of Hobson is that of the individualist whose theories rest upon the assumption of the immutability of the prevailing institutional system. It is not surprising, therefore, that his standards of justification at times betray the same individualistic habit of mind. For instance, he vindicates or condemns institutions and practices by going back to origins, and applying standards of personal ethics, rather than by seeking to determine their contemporary or future contributions to social welfare. The same habit betrays itself in his conception of earned and unearned incomes,<sup>2</sup> a conception based upon the individualistic assumption of a direct causal connection between a personal productive contribution and its pecuniary reward.

But his most compromising concession to individualism is his attempt to arrive at social welfare through the instrumentality of a hedonic calculus. This attempt to find social good by calculation is implicit in the antitheses between "Work" and "Wealth" in his title, and between "wealth" and "illth,"<sup>3</sup> and "welfare" and "illfare" in his text.<sup>4</sup> It is also connoted by the word "valuation" in his subtitle. But inferential evidence is not alone available; the statement more than once proceeds from the pen of the author himself. He refers to "vital or organic welfare" as an "amount."<sup>5</sup> He defines his problem as an attempt "to seek some intelligible and consistent method of human valuation of economic goods and processes."<sup>6</sup> Even more definitely he refers to his work as "a

<sup>1</sup> *Ibid.*, pp. 294, 298.

<sup>2</sup> *Ibid.*, pp. vii, 180-87, 253-56. This is even more evident in his earlier book, *The Industrial System: An Enquiry into Earned and Unearned Income*.

<sup>3</sup> *Work and Wealth: A Human Valuation*, p. 10.

<sup>4</sup> *Ibid.*, p. v.

<sup>5</sup> *Ibid.*, p. 33.

<sup>6</sup> *Ibid.*, p. v.

human scientific calculus of industrial values."<sup>1</sup> To what extent his study can meet the double and self-imposed demands of the assumption of the social organism and that of a scientific calculus it will be interesting to discover.

A superficial examination of the treatise shows that the volume resolves itself into the four semi-independent divisions of Production, Consumption, Distribution, and the Reconstruction of Industrial Society. The author's reservation of nomenclature does not conceal the structural likeness of this volume to those of individualistic economics.

In pursuance of the method of the calculus, he attempts, in the first two divisions, to determine the "human" costs and utilities involved in productive and consumptive processes. Unlike value theorists, whose problem limits them to phenomena consciously appreciated, Hobson essays to find *all* costs and utilities, "spiritual" as well as physical. The comprehensiveness of his search is indicated by the consideration of such productive occupations as art, discovery, invention, administration, and personal service, and such consumptive categories as sport, charity, culture, and leisure. He departs from conventional usage in abandoning the antithesis between consumption as pleasurable and production as painful,<sup>2</sup> and in attempting to find and measure the pleasures and pains connected with each. Here his method yields admirable results. But it must be insisted that in enumerating the pleasures and pains connected with various activities the author is not calculating. A catalogue, no matter how exhaustive, is not a scientific calculus.

In the third division the author attempts to elaborate a principle for the proper distribution of wealth. Since he is more under the spell of the assumption of the "scientific calculus" than that of the

<sup>1</sup> *Work and Wealth: A Human Valuation*, p. 227; see also pp. 163, 170, 317.

<sup>2</sup> Hobson is, of course, wrong in his implication that economic theory, even marginal theory, is compelled to adopt this antithesis to reach its conclusions. It is quite sufficient that the marginal, not every, increment of work be accompanied by an actual or potential excess of pain over pleasure. If an activity yields a constant excess of pleasure, economic theory raises the pertinent question of the effective limitation on its continuance. In such a case, it asks, why is not the activity continued until a pain does attend it, and until this pain, growing in volume, comes to equal the pleasure derived from its performance?

"social organism," he lays down the thesis that a proper distribution is one which gives a maximum of human utilities with a minimum of human costs.<sup>1</sup> Since the basic utilities and disutilities needed to translate this principle into social reality have been previously revealed, his logical task is the application of his calculus to these facts. But just here it is that his method reveals its inability to sum up and balance the incommensurable satisfactions and dissatisfactions attached to different goods and processes. Several excursions into the particular, including an excellent "human" appraisal of the claims of scientific management, and an elaborate treatment of the distribution of leisure merely serve to illustrate his failure to secure scientific and calculable results. More than once he approaches the communistic formula, "From each according to his ability, to each according to his need,"<sup>2</sup> without perceiving what is involved in its simple terms. Neither abilities nor needs are absolute things. Of the many potential abilities of the individual society can develop and utilize only a few, and its use of these few is peculiarly dependent upon existing social arrangements. Needs, too, are closely related to the particular services which society requires. The formula begs the question; for, if it be accepted, the questions of the best social arrangements, the particular kinds of ability to be nourished and exploited, and the relative importances of different needs still remain to be solved. Yet the author accepts the formula with its commonly accepted connotation, without stopping to note that, thus interpreted, in its last clause, at least, it is thoroughly static and individualistic. Yet, as is to be expected, his conscious assumption of the social organism is potent enough to cause him to make, under the head of "cost of growth,"<sup>3</sup> various concessions to the future interests of society.

The last division, devoted to a program of reconstruction, is merely an extension of the discussion of distribution. Here, either the allurement of the image of an ideal organic society, or a belated consciousness of the inability of calculus, when put to the test, to resolve the organic whole, makes his theories even more indefinite than before. With true middle-class conservatism he insists that

<sup>1</sup> *Work and Wealth: A Human Valuation*, p. 170.

<sup>2</sup> *Ibid.*, pp. vii, 170.

<sup>3</sup> *Ibid.*, pp. 176-80.

in reconstruction proper consideration must be given "to the respective interests of capital, ability, labor, and the consumer."<sup>1</sup> Strangely enough the scientific idea of exactness has now given way to the ethical notion of propriety. Little definiteness is added by his insistence upon co-operation,<sup>2</sup> the substitution of "social service" for "competitive greed,"<sup>3</sup> and the enlargement of class and national ideals into that of the "social whole."<sup>4</sup> To him the only practical limitation upon reform appears to be "the lack of strength of the spiritual unity of society." Needless to say, his exposition occasionally slips quietly across the frontier into homiletics.

This brief résumé indicates that, despite the merit of particular discussions, the author has failed to solve his larger problem. This failure, as has been indicated, is at least partially due to the incompatibility between his consciously accepted assumptions and the terms in which his thought naturally runs. His superstructure of sociology and his substructure of hedonistic economics are incompatible in at least three respects.

In the first place, the organic viewpoint does not allow the consideration of the utilities and costs incident to particular acts of production and consumption to be confined to the psychical and physical effects of such acts upon the individuals directly performing them. It demands a recognition of other utilities and costs which can be located only in the process as a whole. To take a simple illustration: a utility results from the consumption of wholesome food by the president of a large corporation; but this utility cannot be appraised exclusively, or even primarily, by the gastric satisfactions experienced by the consumer. Nutritious food is a necessary instrument in rendering a person fit for the exercise of a superior quality of judgment, and this is likely to result in innumerable utilities to a large number of persons. Likewise the costs incurred by an inventor in the dark days when he is working in a garret lead to a premature cutting off of his life and a decrease in the number of devices which otherwise he might have turned out. In such a case the social cost of the inventor's early days of privation are by no means negligible. Such indirect utilities and costs

<sup>1</sup> *Work and Wealth: A Human Valuation*, p. viii.

<sup>2</sup> *Ibid.*, pp. 256-68.

<sup>3</sup> *Ibid.*, pp. 283 ff.

<sup>4</sup> *Ibid.*, pp. 272-75.

may well be of a magnitude sufficient to entitle them to be even more intimately associated with the social objective than those immediately experienced by the individuals directly affected. Yet the method of the calculus necessarily excludes this larger class of indirect utilities and costs. But even the individual feeling-magnitudes definitely ascertainable by the process of the calculus are not the pure terms which are sought; for their quantitative expression, and, in many cases, their very existence, depend upon the rest of the situation. Again, to illustrate, it may be true, as Hobson insists,<sup>1</sup> that the work of the artist contains a surplus of pleasure over pain, and that thus he is being paid doubly; but may not this surplus be directly due to the reception of an income which enables him to maintain surroundings conducive to work? Pare the income, and does it follow that the pleasure of the work remains? How many utilities and disutilities are what they are, quite irrespective of the general scheme of utilities and disutilities surrounding them? Can we ever isolate a utility or a cost and reduce it to quantitative terms? Yet such isolation and measurement is necessary, if the method of the calculus is to be used.

In the second place, the organic viewpoint demands that individuals and classes be appraised in accordance with the social functions they perform. Clearly utilities and costs experienced by the executive of a responsible government, by the commanding general of an active army, or by the administrative head of a large enterprise are to be considered of much greater moment than those of ordinary citizens, soldiers, or laborers. This is not because special favors are due the particular individuals who occupy such positions, but because the welfare of the group as a whole demands that the occupants of such offices should be given the means necessary to the successful discharge of extremely difficult duties. Such consideration involves the necessity of resolving society into an innumerable number of functionaries whose importances have different social ratings. The formulation of such a scheme of ratings amounts to a weighting of the utilities and costs experienced by the individuals and classes in question. The calculus is a mere instrument and, consequently, valueless for such a task. All it can do

<sup>1</sup> *Ibid.*, p. 45.

is to calculate on the basis of ratings otherwise determined. The actual making of the ratings must be based upon a conception of the social situation that is deemed desirable.

In the third place, the organic method requires a careful comparison of present with future utilities and costs. The very end of social reform is to reorganize society in such a way that individuals and classes will come to occupy in the general scheme of things positions quite different from those which they now hold. In fact, any social change is qualitative as well as quantitative; it changes the values of individuals and classes by changing the situations in which they are placed; and this creates enough unlikeness to make the two states incommensurable in any strictly quantitative sense. Further, where present and future interests are in conflict, it is impossible for the calculus to determine the consideration that must be given to each in a program of readjustment. In view of the indefiniteness of the terms present and future, the values from each which demand recognition in the social program defy any attempt at expression in terms of individual utilities and disutilities. For these reasons the individual limitations imposed upon the calculus make it an impossible instrument for the discovery of social welfare.

It will be remembered that Hobson's calculus was to be "scientific." As we have seen, the real place for the calculus is not in the discovery of hedonistic phenomena, but in summing and comparing them; it is in resolving the facts of rank and class and function. A scientific problem must deal with "facts." Now the only factual unit in terms of which the pleasures and pains of individuals in different classes and societies can be compared is the pecuniary one. Any other unit is necessarily based upon personal ethical judgment. Accordingly Hobson is confronted with a dilemma. On the one hand, to use the pecuniary unit is tantamount to accepting the organization of society on its present pecuniary basis. This is nothing less than an identification of current with ideal social welfare and an ethical defense of the present order. On the other hand, if the pecuniary unit is rejected, there remains no "scientific" way of comparing utilities and disutilities of different classes and between different periods. Consequently individualistic hedonism must go. Monadism must surrender to a method that runs in terms of the

social whole. This inhibits the foundation of the system on individual pleasures and pains, and robs the treatise of its "scientific" and quantitative character.<sup>1</sup> It is significant that Hobson's treatise is thus a battle-ground between the assumptions of sociology and those of classical economics.

#### IV

The value of the treatise to the professional reader lies very largely in the substantial contribution which it makes to the literature of economic criticism. Implicit criticism runs the length of the volume; but, occasionally, as in the development of the theory of distribution,<sup>2</sup> and in the discussion of economic method,<sup>3</sup> the author formally essays the critical rôle. The range of his attack includes the failure of economics properly to correlate itself with ethics,<sup>4</sup> the neglect of the field of consumption, the implicit acceptance of the "productive point of view,"<sup>5</sup> and the lack of concern on the part of theory with current practical problems. The attack is particularly directed at the spirit, method, objects, and ethical implications of "marginalistic doctrines."<sup>6</sup> This criticism can be summarized under three heads.

The first criticism is against the assumptions underlying marginal theory. This attack has two principal objectives. The first is the preconception of rationality of judgment, the neglect of instinct as a motivating force, and, in general, the whole psychology of economics.<sup>7</sup> The criticism falls just short of its mark, because the author fails to take account of the economic concepts of "normality" and the "margin." Marginal theorists are inclined to admit many instances of the instinctive, and even of the irrational, character of economic judgment. They argue, however, that when doubt is present, and consequently the judgment has to be made

<sup>1</sup> Hobson's sociology at times seems to be of the absolute type that discovers society by aggregating individuals. At others it is the shop-worn article fashioning society as a biological organism. On the whole it has too much of Spencer in it to meet Hobson's purposes.

<sup>2</sup> *Work and Wealth: A Human Valuation*, pp. 170-78.

<sup>3</sup> *Ibid.*, pp. 320-61.

<sup>4</sup> *Ibid.*, pp. 9-12.

<sup>5</sup> *Ibid.*, pp. 3-9.

<sup>6</sup> *Ibid.*, p. 172.

<sup>7</sup> *Ibid.*, pp. 33, 129, 171, 331 ff.

"at the margin," the element of rationality is usually present. They insist, too, that, because of their consequences, irrational judgments are not likely to be repeated; in short, that they are not normal. The question at issue, therefore, seems to be the validity of the assumption of normality. Marginal theorists would not stop here, but would be inclined to take the offensive by insisting that Hobson is involved in a contradiction in denying rationalistic judgment and in establishing his own conception of social welfare upon hedonistic assumptions. An adventurous theorist would push this argument by insisting that, if things are wrong, as Hobson insists, instincts are not functioning properly. If then individual judgments are not rational and instincts are non-dependable, Hobson can seek to accomplish a definite social purpose only upon the assumption of the possibility of rationality in collective judgments. Or, to express it briefly, to collective judgments that have social welfare in view there appertains a possible rationality that is absent when only individual welfare is considered.

The other presupposition attacked is the mechanical character of the science and its use of the quantitative method.<sup>1</sup> This is, of course, alike inconsistent with his own use of the hedonistic calculus and a necessary outgrowth of his sociological assumptions. It can be explained only when we remember that it appears in the last chapter of the book; that it is used primarily, not in a pure discussion of method, but as a convenient means for attacking the marginal utility theory; and that, despite its general form, it is not so much a protest against the quantitative method as against the expression of economic quantities in pecuniary terms. It is, in brief, an attack on the "purely quantitative calculus of money."<sup>2</sup> In passing it may be mentioned that Hobson's skill in handling many weapons is attested by his use of the recent philosophical attack on the validity of the assumption of the uniformity of nature.<sup>3</sup>

The second criticism is directed at the "gospel of marginalism."<sup>4</sup> The basis of the attack on the marginal theory of value is a denial of the validity of the pecuniary calculus. Hobson questions the

<sup>1</sup> *Work and Wealth: A Human Valuation*, pp. 330-31.

<sup>2</sup> *Ibid.*, p. 7.

<sup>3</sup> *Ibid.*, p. 331.

<sup>4</sup> *Ibid.*, p. 175.

truth of the assumptions that goods which are used as complements are evaluated in isolation, that a combination of certain definitely selected goods is capable of variations in the proportions between its elements, and that the valuations of the latter are through the additions or subtractions of minute increments. He insists rather that a fixed scheme of life or a customary program of consumption determines the quantities of goods to be consumed and their proportions to each other. A breakfast, for instance, includes a number of complementary goods; its value resides in the whole, not in separate goods, and much less in increments of those goods. The individual selects the entity; he does not choose particular articles in varying combinations from a larger group by a nice process of calculation.<sup>1</sup> Hobson, of course, denies a necessary connection between the utilities and the prices of commodities. This takes the form of a denial of the existence of a measurable utility prior to price determination and an insistence that theorists form their judgments of the relative utilities of commodities, not only after, but because of, a predetermined price relation between them.<sup>2</sup>

A necessary corollary of this criticism is an attack upon the complementary productivity theory. This consists of two arguments: First, the only test of productivity is what one gets. Since productive processes are joint processes and since separate products do not emerge, it is impossible to find such a phenomenon as personal productivity except in the personal income received. The theory consequently becomes the truism, "One gets what he gets." Secondly, it rests upon the three false assumptions "of normal facts and forces," of the infinite divisibility of forces and the perfect mobility of the factors of production, and of "a statical condition of industry."<sup>3</sup> The question is complicated, and space is not available for a discussion of the many controverted points. However, it may be remarked that it seems somewhat inexact to call a conclusion which makes explicit what is implicit in such a group of assumptions a truism. The arguments advanced by the author are vigorous, pertinent, and keen. They will carry assurance to many confirmed protestants and will seriously disturb many whose doubts have just begun.

<sup>1</sup> *Ibid.*, pp. 330-35.

<sup>2</sup> *Ibid.*, p. 334.

<sup>3</sup> *Ibid.*, pp. 173 ff.

It is unfortunate that the effect of such trenchant criticism should be lessened by careless statements that reflect upon the author's understanding of things quite fundamental. A case in point is that of the margin. Hobson speaks as if the nature of the theory imposes a requirement of an equivalence in utilities on the part of articles having the same value.<sup>1</sup> Nothing is more rigidly insisted upon by the marginal theorists than the proposition that the value of an article does not depend upon *its own* marginal utility.<sup>2</sup> Consumption goods are combinations of simpler elements, all the units of each of which must have a uniform price. Therefore, the value of a supermarginal product can be no greater than that of a marginal product which contains in a different form the same combination of elements; yet the utility of the former may be much greater than that of the latter. It is just this that makes "the law of costs" such an important part of the marginal utility theory of value.

Hobson also speaks of an equivalence in values of the marginal increments of the elements which go into a finished product.<sup>3</sup> It is difficult to think of an exponent of marginal doctrine, with the possible exception of Wicksteed, who would give his assent to this interpretation. There exists no utility unit which, prior to price determination, can be used as a common measure of the elements in question. Since the component parts are material goods or personal services of different kinds, they have no common physical unit of measurement; hence the statement, if interpreted to mean a physical unit of each, becomes meaningless. But even if by the last increment is meant "the last pennyworth," or the last dollar's worth, of the ingredient, the statement does not necessarily hold if one of the elements is itself a composite product. In such an event the case becomes that just disposed of. Finally, if we are concerned with a product composed entirely of primary elements the argument breaks down, if the demand for one of the elements is inelastic, and if the last increment of demand comes in at a figure in excess of the highest disutility cost involved in supplying the

<sup>1</sup> *Work and Wealth: A Human Valuation*, pp. 32, 334.

<sup>2</sup> See, e.g., Böhm-Bawerk, *The Positive Theory of Capital*, pp. 223-34.

<sup>3</sup> Hobson, *op. cit.*, p. 332.

quantity demanded.<sup>1</sup> The question at issue then becomes whether inelasticity of demand is compatible with the necessary assumptions of the marginal theory. That question the author does not discuss. The range of these exceptions seems to indicate that this idea of equivalence of utilities at the margin is no essential part of the marginal concept.

Much more serious are implicit admissions which amount virtually to giving away the author's case. In discussing the advisability of restricting production he allows himself the conventional argument that the last increment produced not only entails the greatest human cost, but yields the smallest human utility.<sup>2</sup> This is equivalent to saying that the utility yielded by the last unit, which is marginal, is smaller than that yielded by the first supermarginal unit, and still smaller than that yielded by the second supermarginal unit. If a unit were sacrificed, the marginal unit would have to go, and those who now consume it would have to do without. It is evident that this is not because the feeling magnitudes experienced by its consumers are smaller than those experienced by the consumers of the first or second supermarginal increments, but because their purchasing power is smaller.<sup>3</sup> Those who can pay more, in consequence of that very ability, will continue to consume after the quantity has been reduced and the price has been raised. Hobson, accordingly, is using the purchasing power of the consumers as a test of the magnitude of social utilities. This is nothing else than making pecuniary wealth a measure of the relative social importance of consumers, and thus identifying it with social welfare. In this Hobson is abandoning a position, not only essential to his own protest against "marginalist

<sup>1</sup> Since the purpose of this article is not to dispose of the questions raised by Hobson's treatise, space is not available to make a distinction between the pure utility and the utility-disutility theories, and to work out this argument separately for each. The disutility factor is admitted above because of its usual implicit admission by even those authors who explicitly deny its influence and because of the importance which Hobson attaches to it.

<sup>2</sup> *Work and Wealth: A Human Valuation*, pp. 234-35.

<sup>3</sup> A part of the increment cut off no doubt went to supply less intense wants of those who also purchased parts of other increments. But the point is that not all of it was consumed by those who consumed the other increments.

doctrine," but also of the greatest strategic importance in any attack on the ethical implications of orthodox theory.

The third criticism, which is a necessary complement of his attack on theory, has as its objective the individualistic theory of the relation of the state to industry. Hobson refuses to identify wealth with welfare, and insists upon a distinction between "human" and "competitive" distribution.<sup>1</sup> His protest against *laissez-faire* is based upon the arguments just enumerated, and its main outlines, for that reason, require no specific presentation. In this connection it is sufficient to remark that its validity depends, not upon any novelties in presentation, but upon its assumptions. It is interesting to note that the protest is against individualism as a social, as well as a political, philosophy. One of the ablest dia-tribes is directed at the optimistic philosophy of Benjamin Franklin and Samuel Smiles, which is, "Be thrifty, and you will be happy."

In closing, let us institute a brief comparison between Hobson's theory, as he has actually elaborated it, and that of his antagonists. Both are hedonists, and both put their trust in the efficacy of an economic calculus. The neo-classicists cling to the assumption of rationalistic judgment. They still insist, less tenaciously than formerly, but none the less vigorously, upon pecuniary motivation as a means alike to the proper organization of industrial society and to the equitable distribution of wealth. They still maintain, at least implicitly, that the current normal scheme of values as an entity, embracing as it does a scheme of distribution, rests upon a superstructure of utilities and disutilities in such a way as to yield the maximum surplus of satisfactions. Hobson, while denying rationalistic judgment, is in accord with this argument to the extent of admitting that distribution *should* rest upon this basis; but he maintains that the current scheme is out of harmony with this hedonic ideal. And it is precisely for that reason that he would use social control as the means of establishing the desired equilibrium. Both admit that the universe has been so contrived that the interests of the individual and society are identical. Strange as it may

<sup>1</sup> Hobson, *Work and Wealth: A Human Valuation*, p. 170.

appear, eighteenth-century and twentieth-century social reform are at one on that point. The individualistic economist, however, says, "Let the individual alone; in serving his own interests he will be furthering the interests of society." The social reformer retorts, "Let society alone; in serving its own interests it will be furthering the interests of the individual." So the point at issue, on commonly accepted hedonistic assumptions, is the ethical character of the system which competitive price as an organizing force establishes. It is as an attack upon the ethical character of competitive society that the book is most valuable.

## V

By way of summary, Hobson's contribution to economic literature will be briefly indicated:

First, it makes several valuable contributions to the literature of particular subjects. Since this article is an attempt to appraise the work as a whole from the standpoint of theory, it has been unjust to the author in that it has precluded the attention to particular discussions to which their intrinsic merits entitle them.

Second, it is valuable as a contemporary theoretical document. It is an early—perhaps a premature—attempt to reduce the current social-reform movement to a definite theoretical statement. Within the discussion itself the assumptions of sociology and economics are striving for mastery of the author's thought. The volume presents an actual battlefield where processive, organismic, qualitative method is breaking syllogisms with pecuniary, individualistic, quantitative procedure. And, if the author halts compromisely between individualism and collectivism as a fundamental basis for the reconstruction of society, he merely reflects the more faithfully the current movement for social reform.

Third, it reveals, at least more clearly than before, many of the points at issue between neo-classicism and the theory implicit in progressivism. These include the question of the positive or the ethical character of theory and the possibility of its enlargement to include many things now external to it; the question of whether its assumptions should be individualistic or collectivistic; the question of the validity of particular assumptions, such as rationality of

judgment, pecuniary motivation, and the susceptibility of economic phenomena to purely quantitative treatment; and the questions of the validity of the marginal utility and the specific productivity theories, and particularly of their ethical implications. Whether the result will be to justify the absolutists by leading to a more careful restatement, under opportune provocation, of the principles of economics currently accepted, or to vindicate the relativists by causing far-reaching modifications in the point of view, scope, methods, and objective of theory, it is not the purpose of this article to inquire. Such an inquiry would commit the impertinence of attempting to solve the problem of the fundamental nature of the universe.

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